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A Complex Systems Model for Transformative Supply Chains in Emerging Markets

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A Complex Systems Model for Transformative Supply Chains in Emerging Markets

Abstract

Purpose

Corporations operating global value chains must grapple with a multiplicity of ethical and practical considerations, most notably when value chains extend to emerging markets. Such contexts involve interactions with diverse stakeholders who possess the ability to impact supply chain performance, but who also bring conflicting needs, values and interests. This paper outlines a transformative model of supply chain fairness, arguing that adopting plural fairness principles and practices generates a higher fairness equilibrium which includes all affected stakeholders in the production of fairness outcomes, with consequent positive organisational and system level impacts.

Approach

Through a philosophically informed overview of the literature on organisational fairness, the paper applies fairness to the management of supplier relations to identify the institutional features of ethically sustainable supply chains. The proposed conceptual model uses a complex adaptive systems approach (CADs), supplemented by describing the contribution of fairness norms and practices.

Findings

This paper argues that a transformative approach to supply chain fairness can suggest new structures for interaction between firms, stakeholders, mediating institutions and governments.

Originality

Emerging market supply chains are facing significant changes. Adopting a complex adaptive systems perspective upon stakeholder relationships, this paper offers insights from the theoretical literature on fairness, and proposes a normative model of supply chain fairness which accounts for both the normative and empirical aspects of relational complexity.

Key Words

Emerging markets; fairness; complexity; fairness; governance; institutions; stakeholders; supply chains; values

Conflict of Interest

The authors have received research grants from Mars Incorporated. The paper does not include any primary data.

Word Count: 10147 words (including references)

1.0 Introduction

Supply chain fairness is a challenge for rapidly growing emerging markets which are becoming key sourcing regions for many industries. For example, while in 2007 26.4% of Inditex's suppliers were located in Asia, by 2012 this share had grown to 44.7% (Orcao and Pérez, 2014). Emerging markets do not only supply developed markets with goods but have also evolved into important consumer markets. An out-of-market strategy to supply these markets has the disadvantages of long lead times and exposure to exchange rates. Hence, many organisations are

attempting to develop local supply chain capabilities to support the growth potential of emerging consumer markets (Blanco, 2009). This expansion of supply chains in emerging markets combined with a unique set of institutional characteristics, including institutional voids and the importance of informal institutions, poses challenges for firms, local suppliers, workers and communities (Rottig, 2016; Puffer et al., 2016). These include infrastructure issues (for example, underdeveloped supply chains, inadequate utilities, inadequate human resources and poor information technology infrastructure) and policy hurdles (e.g., taxation, regulation and real estate) (A.T. Kearney, 2006). Beyond these often technical issues, fairness considerations are at the centre of supply chain development in emerging markets. Many global supply chains transfer value from producers in emerging markets to consumers in developed countries through exploitative practices (Tallontire and Vorley, 2005). Similarly, disparities between emerging market producers and consumers raise fairness concerns.

Corporations with operating supply chains in emerging markets are frequently confronted with negative social and environmental impacts, requiring them to grapple with the governance of eco-systems, thereby blurring the practical distinction between public and private goods. New supply chain models are needed to address these issues, including integrating values of fairness, efficiency, rights and others into supply chain practices. Yet we know very little about how values act upon supply chain performance. Fairness matters to the variety of stakeholders affected by their proximity to a supply chain network. Supply chain partners are often in different positions of power, which exposes the weaker party to vulnerabilities (Duffy et al., 2013; Kumar, 1996; Touboulic, 2014). In particular, distributors, producers and farmers in emerging markets frequently operate on a smaller scale than their equivalents in developed markets, with lower resilience to practices considered to be unfair. Furthermore, suppliers in

emerging markets employ vulnerable workers earning very low wages. It is here, in the midst of power imbalances, economic inequalities, values diversity and variations in different conceptions of living, where fairness becomes particularly relevant. Distributive and procedural justice can limit the extent of conflict in supply chain relationships and encourage compliance (Brown et al., 2006). Fairness can also have a significant impact on social elements of supply chain relationships which are often not contractually specified (Griffith et al., 2006). For instance, if one supply chain member treats its partner fairly (in terms of processes and reward allocation) its partner reciprocates by adopting attitudes and engaging in behaviours aimed at strengthening the partnership (Griffith et al., 2006). Similarly, fairness can influence attitudinal and behavioural outcomes such as long-term orientation, trust and relational behaviour. Firm benefits can be legitimacy-related, psychological (for example, increased stakeholder trust, ownership or commitment) or knowledge-based. Joint benefits of organisational ethical behaviour include joint learning and the joint transformation of problem domains (Doh and Quigley 2014). Supply chain fairness can also encourage partners to engage in behaviours that are over and above that which is formally expected within the terms of supply (Duffy et al., 2013; Kashyap and Sivadas, 2012). Despite the importance of fairness to supply chain performance, there is a gap in the literature comparing fairness perceptions in supply chains across countries. Most of the current research on supply chain fairness has examined exchange relationships in developed countries. Many high-impact studies focus on the US context (see, for example, Brown et al., 2006; Griffith et al., 2006; Kashyap and Sivadas, 2012; Narasimhan et al., 2013). Only a small number of studies have looked at emerging economies (for example, Liu et al., 2012; Gu and Wang, 2011; Nnamdi and Owusu, 2014; Sagheer et al., 2009).

Furthermore, most previous research on supply chain fairness has focused on supplier fairness perceptions, and their effects (see, for example, Brown et al., 2006; Griffith et al., 2006; Kashyap and Sivadas, 2012). However, these individualistic approaches do not do justice to the complexities of global supply chains. Nor do they account for the fact of value pluralism in firms which, given the global reach of many organisations, means that they now 'reflect the pluralism of the surrounding society' (Heath et al, 2009: p. 9).

Given the range of stakeholders who may potentially be supply chain members, we propose to go beyond individualistic approaches to supply chain fairness by adopting a complex adaptive systems perspective. Increasingly, we are living in a 'shared-power, no-one-wholly-in-charge world' (Crosby & Bryson, 2010: p. 211) where multiple actors pool responsibility for producing outcomes of benefit to each. As organisations are confronted with challenges which none can address alone, collaboration is on the increase. Consequently, we are observing the rise of complex adaptive systems characterised by uncertainty, instability, interactive density, and unavoidable interdependencies which demand that organisations develop capabilities for extensive cooperation and coordination leading to shared knowledge building, joint expertise and collaborative learning (Edwards, 2011). Positivist research into the relational aspects of supply chains has focused on quantitatively investigating supply chain networks (see, for example, Wu et al., 2010). We understand supply chains as socially constructed institutions, or intersubjective realities (Endres and Weibler, 2016) emerging from communicative interactions between supply chain stakeholders (Koschmann, 2016). This perspective is useful for studying how fairness operates in supply chain relationships. It draws attention to how emerging market supply chains are characterised by specific relationships, including powerful intermediaries in supply chains, uneven power dynamics between workers, suppliers and buyers, and the importance of NGOs

and MSIs in representing the interests of commonly overlooked supply chain participants such as workers and smallholders (Hughes et al. 2007). Uniting theoretical approaches to fairness to an overview of the empirical literature, we illuminate the salient features of fairness relations in complex adaptive systems for the emerging market context, and advance a theoretical model of supply chain fairness which accounts for both the normative and empirical aspects of relational complexityⁱ.

2.0 Theoretical approaches to fairness

Fairness is concerned with how we treat one another in our social and economic interactions. By invoking fairness, we are making some statement, forming some judgement, about how people ought to be treated, how they are actually treated, and what this implies for justice. The formal principle of distributive justice can be found in Aristotle's statement of equality that equals should be treated equally and unequals unequally. More precisely:

'Individuals who are similar in all respects relevant to the kind of treatment in question should be given similar benefits and burdens, even when they are dissimilar in other irrelevant respects; and individuals who are dissimilar in a relevant respect ought to be treated dissimilarly, in proportion to their dissimilarity' (Velasquez, 1998).

Fairness picks out the kinds of reasons that should guide our interactions: 'To be partial and biased is to be moved by the wrong sorts of reasons' (ibid: p. 398). Arrangements may be judged to be fair, when allocations are 'in accordance with what is due' (ibid: p. 399) as well as subject to allocative procedures which are guided by the correct reasons of impartiality and efficiency according to some publicly recognised feature of the recipient. It is fair to treat participants

equally, but this does not imply that they must be treated the same. Rather, equal treatment means that all participants should have their claims satisfied in proportion to relevant public criteria, such as contribution, desert or need. Furthermore, fairness practices which give participants a role in determining the rules restricting their liberties operate to reduce the anxieties of participants that they will be exploited or be subject to unpredictable, arbitrary treatment. Hence, fairness practices encompass procedures as well as outcomes, and associated interactions are constituted by impartial, reason-giving exchanges. Finally, acceptance by participants of the benefits of cooperation generates obligations to make their contribution, including taking part in shaping the rules governing social cooperation.

People consider a variety of fairness norms to be relevant, but these often conflict in real world contexts of value pluralism and competing interests. The obligations arising from accepting the benefits of social cooperation, for example, are subject to interpretation and contestation. Furthermore, deliberative exchanges which privilege impartial reason-giving often marginalise modes of communication based upon story-telling (Mansbridge et al., 2010), or emotional articulation of concerns and polarised positions. In many cultures, including emerging markets, participants use not only reason, but also emotion and other varieties of expression to form fairness perceptions. In micro-level interactions, reflection upon normative principles is combined with collective sensemaking, encouraged by social information processing, social contagion, social networks and fairness heuristics (Schminke et al., 2015).

Prior research has found strong correlations between fairness and outcome satisfaction, job satisfaction, trust, and affective commitment (Cohen-Charash and Spector 2001; Colquitt et al. 2001; Nowakowski and Conlon 2005). Cultural variations of fairness are also relevant; for example, the literature has shown how the Chinese concept of guanxi can improve trust (Lyles et

al., 2008). From a relational perspective, fairness moderated by trust impacts extra-role behaviour, psychological ownership and self- and collective identities (Niehoff and Moorman 1993; Johnson et al. 2010) (see Figure 1).

We integrate normative/objective and empirical/subjective approaches (Cuguro-Escofet and Fortin, 2014) into a model of supply chain fairness which foregrounds how a transformative fairness equilibrium may be achieved through processes of learning and adaptation. As part of the normative content for such an approach we argue that the plurality of fairness principles must be considered. In a study of fairness trade-offs Ordonez and Mellers (1993) examine responses to: firstly, what people would favour in the 'more fair' society and secondly, what they would favour in the society in which they would 'prefer to live'. They find that 'people value equity but prefer to live in societies that sacrifice some equity in order to provide for higher minimum and mean earnings' (Konow, 2003: p. 1234). Given this, Konow (2003) proposes a 'multicriterion theory of justice' in which 'three justice principles are interpreted, weighed and applied in a manner which depends upon the context' (ibid: p. 1235). Determining the role of fairness principles in social arrangements is an interactive process and a social practice for 'mutual assurance' (James, 2012).

When aimed at mutual assurance and trust building, fairness principles facilitate the formation of fairness perceptions, including collective judgements on how people are treated according to the values relevant to the situation (Etzioni, 1988; Schminke et al., 2015). This includes the procedural, distributive, interactive dimensions of justice (Whitman et al., 2012). The effectiveness of social practices in arriving at 'all things considered' fair outcomes depends upon an integrated set of factors, such as setting up the communicative interaction based upon mutual respect, openness and availability of information, readiness to listen to different points of view

and commitment to the outcome. This means that, in order to be seen to be fair, communicative interactions must take place in particular kinds of dialogic spaces or ‘mini publics’. In the conduct of dialogic conversational practice, Francis et al. (2013) privilege the role of line managers, making them uniquely responsible for engaging people ‘in a type of generative conversation that can creatively address the tension between actualities (what is) and potentialities (what could or ought to be)’ (ibid: p. 2718). However, corporate managers are not the only responsible agents in dialogic spaces. Beirne (2008) characterises participatory practices as ‘negotiated, contested and precarious’ (ibid: 682), which means that establishing ‘mini publics’ within supply chain networks will require also a ‘consolidated, independent source of influence and continuity’ (Brogger, 2010: p. 491), or a system of independent institutions which can provide checks and balances within a pluralised system of democratic accountability. To this end, we discuss a model of supply chain fairness which situates supply chains in a multi-level system of mediating institutions and governance arrangements.

Relevant theoretical approaches to fairness are summarised in Table 1.

Insert Table 1

Insert Figure 1

3.0 Situating Supply Chains within Complex Adaptive Systems

Supply chains are concerned with the procurement, production and distribution of goods (Arunachalam et al. 2003). We characterise supply chains as Complex Adaptive Systems (CADs) which are ‘neural-like networks of interacting, interdependent agents who are bonded in a collective dynamic by common need’ (Uhl-Bien and Marion, 2009: p. 631). Our starting point is the observation that interconnected, networked systems have become a major feature of the modern globalised world. Yet, these highly interdependent systems are not fully understood, are

difficult to control and are vulnerable to failure. Global supply chains can be understood to be a form of CAD because their emergent properties arise through complex, and unpredictable, interactions involving suppliers, distributors and manufacturers in multiple locations (Pathak et al., 2007).

According to Varga et al (2009), the supply network has evolved from simple intra-organisational exchanges, progressing towards increasing levels of integration via dyadic relationships between businesses and suppliers, dyadic chains, supply chains, integrated business networks and demand chain communities. Key relationships include buyer-supplier agreements and producer-worker relationships. In emerging markets other important parties include trade unions (Ansett, 2007), multi-stakeholder organisations (Hughes, 2001), intermediaries, producer organisations, certification and standards agencies, distributors, processors, marketing agents (Narroed et al., 2009) and NGOs (Maloni and Brown, 2006). Stakeholders will bring to their joint action their diverse values, needs, fairness norms and conceptions of living. Successful supply chain partnerships require cooperation regarding common needs and shared values, as well as the flows of goods, information and finances (Pathak et al., 2007; Surana et al., 2005). Global supply chains tend to be dynamic, temporary and subject to frequent change (Choi et al., 2001), making co-evolution among supply chain partners rare (Pathak et al., 2007). Positivist research, however, by focussing on supply chains as the physical flow of resources (see, for example, Sarac, 2014) can fail to account for supply chains as dynamic systems. In particular, such perspectives do not pay sufficient attention to the relational dimension of supply chains, including the necessity to coordinate different parties and manage inter-organisational relationships.

The formal and informal characteristics of emerging market supply chains make them good examples of complex systems (Khanna and Palepu, 2013; Williams, 2014). Many developing

economies have large informal or unorganised sectors that is not registered for tax purposes and not regulated by the state (Harriss-White, 2003). Most informal workers have no access to social security, minimum wages, or occupational safety and health protection (Papola, 2004). We argue that fairness principles and practices can, and ought, to be applied to supply chains considered to be CADs. However, the CAD literature exhibits limited understanding of the important of relationships, and the values, norms and principles governing interactions. The result is an ‘action void’ which ‘denies a role to purposive action through the exercise of strategic choice’ (Child and Rodrigues, 2012: 804). This means that the contribution of ‘relational value’, which arises from ‘mutual commitment and sustained cooperation’ (Luo, 2008; see also, Gronroos and Helle, 2012), to the management of supply chain ecosystems is poorly understood. Specifically, organisations operating complex supply chains need to develop capabilities for establishing ‘rules of the game’ and developing relational capital, as well as making use of capacities for ‘guided self-organisation’ (Helbing, 2013: p. 54) by combining bottom-up and top-down mechanisms with ‘the right kinds of interactions, adaptive feedback mechanisms, and institutional settings’ (ibid: p. 55). In the following sections, we propose a model for how complex supply chain networks based on fairness can be established and maintained.

4.0 A Systems Approach to Supply Chain Fairness

Fairness tends to be constructed in systems when relationships manifest the relevant normative characteristics of interdependence, inclusiveness, cooperation, and human values of equality, fairness, care, respect, esteem and dignity. In so doing, these relationships contribute to the ‘relational value’ needed to sustain a system of social cooperation. When stakeholders experience an urgent ‘shared need’ and are able to express the diversity of their interests through

properly architected dialogic spaces, prospects for long term systemic sustainability are improved. Supply chains are often complex and entail balancing competitive and cooperative behaviour between supply chain partners (Wu et al., 2010). Jambulingam et al. (2009) find that fairness promotes trust in supply chain relationships. Similarly, Stevenson and Pirog (2008) suggest that procedural fairness can help to establish trust base between supply chain partners.

The next section will apply these insights to a model of supply chain fairness which operates at multiple levels of the stakeholder, mediating institutions and ecosystem governance. These elements of supply chain fairness are laid out in Figure 2.

Insert Figure 2

Three dimensions of supply chain fairness are frequently considered in the literature. The first dimension, *distributive fairness*, concerns the key question of whether benefits and burdens are fairly shared among supply chain partners (Kumar, 1996). The second dimension, *procedural fairness*, looks at decision-making processes in the supply chain. An important concern is whether all supply chain partners have a voice in decision-making, especially where powerful supply chain partners might not always be aware of the conditions under which vulnerable supply chain partners operate (Duffy et al., 2013; Kumar, 1996). The third dimension, *interactional fairness*, concerns the communication process. Supply chain fairness implies that communication between partners is open and that procedures are in place to manage conflicts (Narasimhan, 2013).

In our model of supply chain fairness, these three dimensions are applied to the levels of governance, institutions and stakeholders (Table 2). Drawing upon the theoretical and empirical literatures, we identify key aspects of the three fairness dimensions which are likely to impact supply chain performance (Figure 3).

Insert Table 2

Insert Figure 3

Our conceptual model brings the three dimensions of fairness together with features of supply chain as complex ecosystems: specifically, *mediating institutions* and *governance*.

4.1 Mediating Institutions

Supply chain fairness goes beyond the contractual relationship between supplier and buyer to include the supplier’s context and environment. This illuminates concerns such as living wages, child labour and working conditions which are pertinent to the emerging market context (Boyd et al., 2007; Tallontire and Vorley, 2005). Most previous studies have asked suppliers if they feel they are being treated fairly. But these questions only scratch the surface: what if a supplier does not treat its own employees fairly? Supply chain fairness is a complex, multifaceted issue, where assumptions are too easily made that the fairness perceptions of more powerful actors can be taken as proxies for invisible or marginal supply chain members. An extended notion of supply chain fairness will consider how suppliers, producers and communities make their contribution to creating the conditions for supply chain cooperation and effectiveness, including being able to advance their conceptions and perceptions of fairness. However, this more expansive understanding of supply chain fairness can only be addressed in collaboration with mediating institutions constituting the social fabric of the supply chain. In turn, these are also sites of competing interests, contested values and different conceptions of living.

Our supply chain fairness model assumes that collective fairness is assessed, negotiated and implemented at different levels within a network of actors. What constitutes “fairness” is often negotiated not only between organisations and stakeholders but also through the network

dynamics of collective mobilisation. In many cases, institutions such as NGOs, trade unions or producer organisations mediate the relationships between organisations and stakeholders. NGOs take an important role as they frequently initiate and lead multi-stakeholder initiatives in the supply chain context (Utting, 2002; Connor, 2004). For example, the Ethical Trading Initiative (ETI), has led the dialogue between firms, producers, NGOs and trade unions regarding workers' rights in emerging markets (Hughes et al. 2007).

4.2 Governance

The type and quality of governance impacts fairness considerations. On the most basic level, this means awareness of the regulatory, social and cultural norms shaping supply chain partnership relationships. For example, the minimum wage has become an increasingly popular policy instrument to reduce inequality in many emerging markets China, Hong Kong, and Cambodia (World Bank 2014). However, it is widely accepted that minimum wage regulations often do not allow workers and their families to experience a decent living. For this reason, a living wage, set at a level higher than the national minimum wage, has been proposed in many countries, even though there is no agreement on how a living wage should be calculated in practice (Miller and Williams, 2009). A living wage implies that all workers should earn a wage adequate for the purchase of goods and services necessary to sustain a life of human dignity (Figart, 2011). Importantly, a living wage incorporates the assumption that full-time work should be enough to support a family. However, living conditions and family arrangements vary across developed and emerging economies which complicates comparison of living wages across countries, but equally presents an opportunity for organisations to come to a deeper understanding of the lives of suppliers and producers in their supply chains.

Regulative ideals is one aspect of governance, which can impact on fairness considerations in diverse, sometimes unpredictable, ways. Specifically, governance has become increasingly networked. Jones et al. (1997) examines ‘network governance’ which arises from increasing complexity in the polity, the need for government to negotiate with many social actors, a shift from markets and hierarchies to networks, a movement from formal authority to coordinating, steering and influencing, and finally from a state centric to a pluralistic perspective. Bao et al. (2012: p.446) argue that ‘one of the chief functions of government is to collect the values of the community and create integrated responses to these values across increasingly fragmented government systems where values are in conflict’. This produces a values-centred approach to governance, where private enterprises may be increasingly called upon to join with others in the creation of public value (Moore, 2017) through systems of ‘hybrid governance’ (Ponte and Daughjerg, 2015), characterised by ‘deep and mutual dependence and interconnection between public and private’ (ibid: 104).

4.3 *Distributive (‘Outcome’) Fairness*

Not every kind of functioning cooperative system can be judged to be fair. When considering distributive justice in international trade, De Bres (2011) argues that the frequently assumed connection between fairness, cooperation and welfare outcomes (‘welfare consequentialism’) does not hold because fairness is not essential to stable cooperative systems. Many social arrangements endure, even when the distributive outcomes are clearly skewed towards one party. In other words, cooperation is possible over long periods of time, without the explicit enactment of fairness principles. However, we may want to select from more or less desirable systems of social cooperation in order to promote certain moral or efficiency objectives (Keat, 2009). For

example, a stable system of social cooperation could be a ‘poverty trap’ (Sindzingre, 2010) which maintains a low fairness equilibrium through institutionalisation of dependence, exploitation, silence and minimal benefits to the beneficiary. Conversely, a high fairness equilibrium implies setting up fairness practices which meet shared human interests in world-building, a sense of belonging (‘existential security’), and human flourishing.

However, we are not likely to be afforded a simple choice between fair or unfair systems. Arneson (2013) argues that we should, in our concern to mitigate the harms of exploitation, guard against prioritising fairness so strictly that we forgo the good that might be done. Exploitation involves ‘interacting with another person in a way that generates for oneself an unfairly large share of the gains from interaction’ (Arneson, 2013: 405). For Arneson, the problem with strict fairness is that, because of concerns that the interaction will be exploitative, we may refuse to become involved with somebody, thereby depriving him or her of vital resources. Moreover, our concern over exploitation is not just with the degree of gain or loss in exchanges, but also with what is due to another human being. Exploitation is wrong because it is fundamentally disrespectful, and damages the possibility of interactions between equals, or persons of intrinsic human worth (Sample, 2003). Fair treatment mitigates fears of exploitation and fosters mutual respect. In applying justice theory to strategic alliances, Luo (2008) shows the necessity for fair treatment at both the individual (self-esteem, social identity, team spirit) and the organisational levels (commitment, trust and social harmony), if alliances are to produce cooperative outcomes=

There is agreement in the literature that supply chain fairness includes distributive fairness. Most articles take this to mean paying suppliers a fair price and providing fair payment terms. Examples of measurement include: rewards based on efforts expended (Narasimham et al.,

2013); gain consistent with effort and investment, commensurate with role and responsibilities, comparable to others' gain, comparable to counterpart's gain and proportionate to our performance (Liu et al., 2012); contribution to relationship vs. outcome/ rewards of relationship (Griffith et al., 2006).

From a systems perspective, distributive fairness implies that suppliers have to be paid a fair price, allowing them to provide decent working conditions to their employees, and fostering the conditions for productivity gains and improved livelihoods, thereby benefiting organisations and local economies. For example, Pollin et al. (2004) calculated increasing apparel retail prices by 4-12% might allow for a 100% increase in wages of apparel workers in emerging markets, while maintaining acceptable profit levels for suppliers and buyers. While this research shows that a relatively small increase in retail prices might permit a significant increase in wages, it is often difficult to precisely establish the notion of a fair price. For the emerging market context, it has been suggested that a fair price in the supply chain 'covers all production costs for the goods, including environmental and social costs, provides a decent standard of living for the producers with something left over for investment' (Béji-Bécheur et al., 2008). However, Reinecke and Ansari (2015) illustrate the difficulty of multi-stakeholder deliberations to establish what a fair price means in sectors involving smallholder-farming. They suggest that actors deal with the ethical complexities of negotiating what a fair price means through sensemaking processes involving iterations of deliberation. However, such processes do not always result in outcomes which can be judged to be objectively fair. This is because: firstly, communicative practices may often be based upon deliberative modes which exclude moral intuition and affect from ethical judgements and secondly, power imbalances and cultural differences mean that '[w]eaker parties may be unable to articulate injustice and systemic neglect in rational deliberations' (ibid: 4).

Outcome fairness must therefore be tied to a contextually-attentive understanding of process fairness which is committed to the design of mini publics or dialogic spaces based upon principles of equality, communicative diversity and respect for difference.

4.4 *Procedural ('Process') Fairness*

In our interactions with one another, we are often concerned with more than distributions of wealth. Procedural fairness not only secures those instrumental benefits which are due to us (by virtue of our contribution or need), but provides the basis for our mutual recognition of each other as beings deserving of respect and dignity, and is a means through which we manifest our agency. Respect and dignity may be repaired if beneficiaries are acknowledged as human beings with needs and plans of their own, even if the initial exchanges between parties are strictly exploitative (Wood, 1995). Respect underpins our 'agency status' (Anand, 2001) by which 'people are able to establish, albeit imperfectly, their mutual relations as agents, not just as owners of possible payoffs' (ibid: 253). In this regard, our agency status is signalled by structured opportunities to participate in 'cheap talk' (Ostrom, 2010), and to experience self-determination by sharing with others the responsibility to create, maintain and endorse the rules which frame our collective action.

Rather than avoiding all instances of exploitation, our concern should be with repeated exchanges which maintain a beneficiary in a condition of long term dependence, thereby preventing their being able to advance their condition through improvements in respect, capability development and increased livelihoods. Repeated exchanges characterised by permanent dependence render beneficiaries vulnerable to systemic exploitation. Overcoming systemic exploitation involves acknowledging long-term mutual obligations, which are met

through attentiveness to background conditions, including the ecosystem of mediating institutions and governance arrangements.

Procedural fairness has implications for the design of non-exploitative communicative spaces. Kumar (1996) highlights the following factors of supply chain fairness: bilateral communication, impartiality, refutability, explanation, familiarity and courtesy. Other research has mentioned transparency, honesty, reliability, influence and a say in decisions, consideration, respectfulness and consistent behaviour (Diller, 1999). Mechanisms to measure procedural fairness and evaluate deliberative quality include: fair policies, fair treatment, equitable treatment (Griffith et al., 2006); non-discrimination, consistent procedures, provision of feedback, familiarity (Liu et al. 2012); fair dealing with suppliers, explanation of decision-making, consistent decision-making (Narasimhan et al., 2013).

A vexed issue in the pursuit of deliberative quality is the power imbalances which arise from severe economic inequalities. MNCs address concerns related to decent work and living wages by requiring suppliers to comply with codes or standards. However, these codes or standards are often issued without sufficient consultation or explanation. Boyd et al. (2007) suggest that a supply chain approach based on monitoring and compliance can damage buyer-suppliers relations and will not always be useful in addressing pertinent issues. For example, Pedersen and Andersen (2006) describe that IKEA's implementation of a supply chain code of conduct, involving several emerging markets, has been made possible only through a system of direct sanctions enforced through IKEA's dominant supply chain position.

From a systems perspective, stakeholder capacity development is an important feature of procedural supply chain fairness. This includes how supply chain interactions impact the social and relational capital in whole communities, not just within supplier organisations. Ansari et al.

(2012) draw on Sen's (1983, 1985) perspective of poverty alleviation which argues that developing the capabilities of the poor may lead to improved economic and social participation. Thus supply chain fairness has to go beyond income increase by focussing on the opportunities that individuals have for human flourishing through acting and being. Building capability development into supply chain systems exceeds standard approaches such as the traditional fair trade model because it includes important groups such as small distributors, traditionally not involved in fair trade schemes, and fosters a critical inquiry into supply chain practices such as: are supply chain partnerships disruptive to communities, do supply chain partnerships offer suppliers and their workers the opportunity to develop capabilities, are those capabilities valuable beyond the immediate supply chain partnership?

4.5 *Interactional ('Relational') Fairness*

The supply chain fairness literature highlights the importance of consistent communication and conflict resolution. Relevant dimensions include: respect, friendliness, socializing between business representatives, fair treatment, exchange of timely information, information sharing transparent communication, provision of information (Liu et al., 2012); agreement on priorities, quick conflict resolution, exchange of timely information, provision of information (Luo, 2008; Narasimham et al., 2013);

A systems approach to fairness adopts a wider approach to the social construction of justice than mere transactional exchange. Supply chain justice does not emerge straightforwardly from contractual negotiations between supplier and buyer but is socially constructed through deliberative exchanges, where fairness perceptions are likely to be stronger when such deliberations permit expressive variety, including the articulation of diverse values and

perspectives, and are supported by mutual obligations. For example, given the absence of an accepted definition of a living wage, the determination of a living wage would involve not only multinational companies and their local suppliers, but also NGOs, cooperatives, trade unions, local governments, MNCS and suppliers. A prominent example for the emerging market context is the Ethical Trading Initiative (ETI) (Hughes et al. 2007). Such stakeholder forums often do not exist and investments by corporations to build ‘relational value’ may be required. For example, Nestle initiated the AAA multi-stakeholder coffee programme to address sustainability issues in the coffee supply chain (Alvarez et al. 2010).

5.0 Discussion and Conclusions

The question arises - how can supply chain networks in emerging markets move towards the described model of systemic fairness? In emerging markets, the presence of institutional voids indicates a failure to signal the importance of fairness-related social and environmental issues (Baughn et al. 2007). However, these institutional voids (Puffer et al. 2016) open up an opportunity-space for innovation where global supply chains are understood as semi-autonomous social formations consisting of a basic structure of institutions, public policies and social practices for the purpose of distributing goods and services and allocating fairly the benefits and burdens of cooperation to supply chain participants. In so doing, supply chain fairness needs to be considered from a complex adaptive systems perspective characterised by pluralism, power and difference, where change involves collaborative knowledge building and the development of shared expertise between supply chain members, including institutions, businesses and stakeholders (Edwards, 2012). Edwards (2011) argues that cooperative learning depends upon ‘relational agency’ or the ‘capacity for working with others to strengthen purposeful responses to

complex problems' (ibid: 34). Learning may be understood to be adaptive, generative or transformative (Sessa et al., 2011). Adaptive learning tends to be incremental and often occurs unconsciously. Generative learning tends to be more proactive but builds on prior experiences. Transformative learning tends to be most radical and requires reorientation. We assume that moving towards an innovation-promoting 'fairness equilibrium' in supply chain systems will require transformative learning. We illustrate the dynamic movement from incremental adaptation to systemic transformation in Figure 3.

Insert Figure 3

Deliberative governance structures can provide voice to suppliers and intermediaries, However, simply setting up structures is not sufficient to ensure substantive discussion about fairness – this will require that all participants have the ability to influence the rules, norms and practices which are judged collectively to manifest fairness principles, and extending to meaningful stakeholder engagement in decision-making. Voice has individual and collective components, requiring elements of indirect representation and direct participation (Van Buren and Greenwood, 2008). This makes correctly architected 'dialogic spaces' a necessary design feature for structuring supply chain fairness, and an essential element of moving a system from adaptive to transformative fairness. Overcoming systemic exploitation and establishing a high fairness equilibrium entails commitment to mutual obligations combined with practices attentive to plural fairness principles, mechanisms for weighing and prioritising fairness principles, interactions based on mutual respect, correctly structured communicative spaces, procedures including access to information and shared decision making, and a supportive institutional fabric.

Transformative supply chain fairness is promoted where a 'shared need' for fairness can be identified and articulated. In CADs, Marion and Uhl-Bien (2001) argue that shared need provides the urgent uniting motive, compelling diverse actors to recognise their unavoidable inter-dependences, and to work together for the common good. Acknowledging shared need motivates joint development of the normative, social and operating tools required for securing a transformative fairness equilibrium, characterised by multi-stakeholder initiatives and deliberative governance. Mena and Palazzo (2012: 528) define multi-stakeholder initiatives as 'private governance mechanisms involving corporations, civil society organizations, and sometimes other actors, such as governments, academia or unions, to cope with social and environmental challenges across industries and on a global scale'. Such initiatives are mechanisms for self-regulation, providing alternatives to business regulations or codes of conduct (Utting, 2002), and have commonly been used to address social issues in supply chain management. However, whilst multi-stakeholder initiatives can be key vehicles for stakeholder dialogue, their input and output legitimacy should not be taken for granted. Mena and Palazzo (2012) argue that multi-stakeholder initiatives need to meet minimum standards, including, stakeholder inclusion, procedural fairness, transparency, efficacy and enforcement. Such legitimacy standards can support multi-stakeholder initiatives as vehicles for sustainable development in emerging markets (Backstrand 2006).

For multi-level systems in which multi-stakeholder initiatives play a part, the literature on collaborative governance can provide important insights. Governance is understood as the 'means to steer the process that influences decisions and actions within the private, public, and civic sectors.' (O'Leary et al., 2006: 7) or 'a set of coordinating and monitoring activities' that enables the survival of the collaborative partnership or institution (Bryson et al., 2006). Emerson

et al. (2011) argue for an integrated 'collaborative governance regime' which will encompass a variety of governance relationships such as: collaborative public management, multi-partner governance, joined-up or network governance, hybrid arrangements, and participatory governance including civic engagement. In circumstances requiring collective action, Ostrom (1990) considers 'governance as a dimension of jointly determined norms and rules designed to regulate individual and group behaviour' (Emerson et al., 2011: 2).

Stakeholders included within the jurisdiction of a collaborative governance regime have an interest in how these governance mechanisms address their preferences for fairness, and provide opportunities for supply chain members to influence the framing rules governing their joint actions. With this in mind, Gollagher and Hartz-Karp (2013) describe a hybrid model of 'deliberative collaborative governance' (DCG) which combines deliberative democratic theory with collaborative governance theory. DCG may operate independently of government, and have a role to play in resolving wicked problems (Wemouth and Hartz-Karp, 2015). Ansell and Gash (2007) define a 'combined approach' to collaborative governance where public and private actors work together to provide public goods. In emerging markets, deliberative collaborative governance can provide alternative ordering systems to fill institutional voids (Boddewyn and Doh 2011).

In some governance systems, private organisations are not just consulted by state actors, but share in decision-making responsibility, and furthermore may adopt the pivotal role of system orchestrator. Such co-governance involves complex governance processes which Johnson and Gastil (2015) suggests will blend embedded and autonomous deliberative spaces, and require participants to confront tensions in fundamental values in order to address legitimacy, inclusivity, deliberative quality and power relations. An instructive case is the governance

innovation involving numerous Western retailers, including Primark, Walmart, J.C. Penney, Benneton and Matalan following the “Rana Plaza” factory collapse, killing over 1,100 workers. Corporate responses sought to remedy weak state enforcement of building and labour regulations. This resulted into two types of sector-based governance innovations – an Accord, consisting of a pluralist structure, grounded in a legally binding agreement and involving workers in high level decision-making and co-determination, and an Alliance, making use of a voluntary sector approach, with no formal worker voice in decision-making and involving unions in an advisory capacity only (Donaghey and Reinecke 2017).

Emerson et al. (2011) identify the following key drivers for collaborative governance: leadership, consequential incentives, interdependence and uncertainty. They identify the associated dynamics to be: firstly ‘principled engagement’ involving many diverse stakeholders, shared values, differing needs and identities; secondly, ‘shared motivation’ including trust, mutual understanding, legitimacy and commitment; and thirdly, ‘capacity for joint action’ which includes: procedural and institutional arrangements, leadership, knowledge and resources. Principled engagement involves four basic process elements of communicative practice: discovery, definition, deliberation and determination. Communicative practices must be characterised by fair and civil discourse, open and inclusive communication, representation of all interests, perspective and knowledge of all participants. Ansell and Gash (2007) argue that the variables influencing successful collaboration include: prior history of conflict and cooperation; incentives for stakeholder participation; power and resource imbalances; and leadership and institutional design. Positive fairness perceptions underpin the factors which are crucial within the collaborative process, including: face to face dialogue; trust building; and commitment and shared understanding.

Helbing (2013) identifies the importance of social capital for system adaptation and resilience: 'social network interactions can create social capital such as trust, solidarity, reliability, happiness, social values, norms and culture' (ibid: p. 57). However, values, norms, culture and happiness are 'essentially contested' concepts, subject to interpretive variety and value pluralism, incorporation of which, depending upon the orchestrating abilities of systems leaders, may render a system more or less productive. Uhl-Bien et al. (2007: p. 311) identify the importance of 'recognizing the creative value of tension and using it to foster productive discussions and interaction'. To make use of tensions and differences, system leaders will need to be attentive to supply chains as pluralist cooperative orders which are attentive to the diverse interests, needs and values of many different stakeholders. Participation through voice is a key system feature which provides dynamic feedback and information, as well as establishing the ethical basis for relationships such as fairness, trust, respect and equality, thereby creating 'relational value' through the network.

This paper started from the assumption that fairness in organizational practices can foster various sources of competitive advantage and hence improve organizational performance. This is an important insight, and adds to the body of evidence supporting the position that responsible and ethical practices can produce better outcomes for all involved. By returning to the philosophical and behavioural roots of fairness, this paper provides a foundation for understanding fairness, which can be used to inform and evaluate organizational practices, particularly regarding supply chain management in emerging markets. We argued that a transformative approach to supply chain fairness can put in place new structures for interaction between firms, stakeholders, mediating institutions and government. This additional layer of supply chain fairness remains largely unexplored in the literature. Future research would benefit from studying empirically

how multi-stakeholder governance and deliberation in different cultural contexts can provide voice to suppliers and intermediaries, including trade unions, cooperatives and NGOs, including establishing the effect of fairness perceptions upon supply chain performance.

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ⁱ A relational approach to supply chain fairness may extend to a virtue ethics perspective which considers the moral character of individuals and organisations (see Moore, J., 2017). Further research would examine the interaction between deals with the interaction between virtuous/non-virtuous behaviour by individuals, the institutional features of fairness practices and outcomes in supply chain management. Our thanks to an anonymous reviewer for alerting us to the importance of virtue theory.

Table 1: Theoretical approaches to fairness

General Theories	Gielissen & Graafland (2009)	Konow (2003)	Capellen et al (2007)
Naturalism Behavioural economics; evolutionary theory; psychology	Egalitarianism Equal incomes for all	Need Principle Equal satisfaction of basic needs (Rawls, Marx)	Strict Egalitarianism All inequalities should be equalised even in cases involving production
Deontology Duties and rights	Positive Rights Rights to a minimum income	Efficiency Principle Maximising surplus	Libertarianism The fair solution is to give each person what he or she produces
Consequentialism Utilitarianism and welfare consequentialism	Principle of moral desert Contribution measured by effort or market price	Equity (accountability) Principle – ‘proportionality and individual responsibility’ (equity and desert theory, Nozick)	Liberal Egalitarianism Only inequalities arising from factors under individual control should be accepted
Social Constructivism Sense-making and discourse theory	Libertarianism Transactions are fair when they are voluntary	Context Family – ‘dependence of the justice evaluation on the context, such as the choice of persons and variables, framing effects and issues of process’ (Kahneman, Knetsch & Thaler, Walzer, Elster, Frey).	
Cultural variations Guanxi Xinyong			

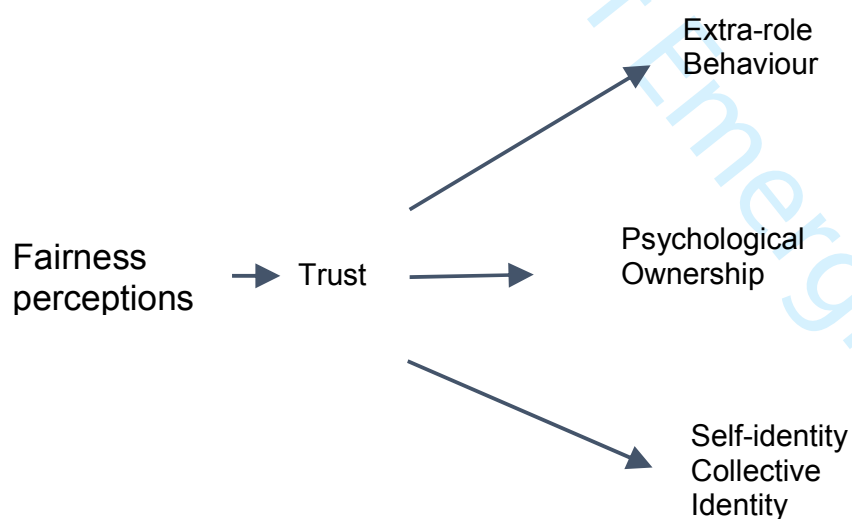
Figure 1: Relational importance of fairness

Figure 2: Elements of Supply Chain Fairness

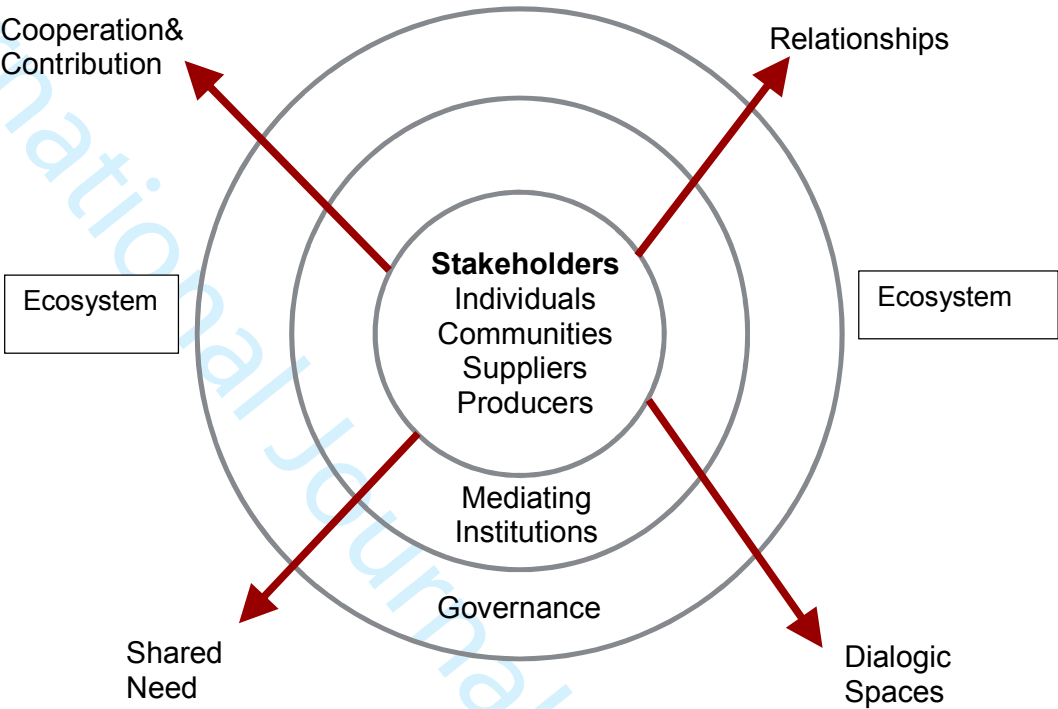


Table 2: Dimensions of fairness at different contextual levels

Governance Arrangements	Compliance with regulation		
	Collaborative, networked and value-based governance		
Mediating institutions	Work with mediating institutions to establish what fair price and payment terms means	Work with mediating institutions on standards and capacity building	Work with mediating institutions for conflict resolution
Stakeholders	Fair price and payment terms	Fair decision-making Explanation of standards Capacity building	Consistent communication Mutual respect Sustainable relationships
	Outcome fairness	Procedural fairness	Interactional fairness

Figure 3: Overview of Supply Chain Fairness